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IMMEDIATE BACKGROUNDS OF THE PRESENT AGRICULTURAL POLICIES AND PROGRAMS

by

Warren C. Waite
Professor of Agricultural Economics
University of Minnesota

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The past decade has witnessed the development of agricultural plans on an unprecedented scale throughout the world. The ultimate development has probably taken place in the totalitarian countries such as Germany, Italy, and Russia. In Germany, for example, the farmer now tills the soil as a public servant for the benefit of the State. The democracies have reached no such situation but even there the growth of controls has been marked. The United States, Canada, Great Britain, Australia, and France have all experimented with various schemes, and the list of countries could be extended almost indefinitely. Previously the policies relating to agriculture had been relatively simple, public education, research dissemination of information and so on. The difficulties induced by the collapse after the war led to the attempt to bolster the position of the agricultural group throughout most of the world. One may suspect that we have come close to the first era in this country in the series of experiments, but it is too early to know whether we have learned much from these experiences or not. It is, however, certain that we are nowhere near the end of our difficulties. Indeed, one may easily imagine that we are simply in the lull before the storm, and that the not too distant future promises difficulties of even greater magnitude than those through which we have just passed.

Certain fundamental obstacles have lain in the way of the successful development and operation of agricultural plans in this country. One of these is that the traditional viewpoint of our agriculture has been that of the independent proprietor operating his own unit on the basis of his own free and unrestricted judgments. This is such an ingrained characteristic of our agricultural people that one of the most effective battle cries of the opponents of these newer developments has been that of "regimentation." The leaders of these activities have, however, strenuously denied such charges. They declare that there is no intention of substituting centralized bureaucratic control for individual free initiative. They maintain that their purpose is to assemble the best professional advice possible, and to lay before the agricultural leadership the pertinent data upon which decisions are to be based. This leadership is then expected with assistance of their counselors to evolve through free discussion plans for the progressive and sustained improvement of agriculture for its own and the general economic welfare. The plans so developed will be put in operation and carried through with the assistance of decentralized and democratically controlled state and federal agencies. It must be admitted that there has been an honest effort to proceed in this manner, but there have also been elements of coercion. In a few cases actual right of individual action has been definitely restricted. For example, in the case of the marketing agreements the Act of 1935 explicitly gave the Secretary of Agriculture power to force a minority of handlers to abide by a plan acceptable to the majority. As a matter of fact even the majority of handlers may be forced to accept a plan even though they do not favor it if a certain majority of the producers vote in favor of it. Other cases are those of the Soil Conservation Districts under the Department of Agriculture and the Grazing District under the Department of the Interior.

The individual farmer has been left pretty much free to join the program or not as he saw fit but the tendency has been to force wholehearted cooperation or none at all by tying all phases together and withholding participation from one portion unless cooperating on another. But for certain products and under certain circumstances the Secretary of Agriculture may proclaim a marketing quota in effect. If a farmer referendum by a two-thirds majority of eligible farmers voting confirms the action an individual farmer cannot lawfully market in excess of his assigned quota without being subject to a heavy penalty on the excess marketed.

In addition to difficulties occasioned by the traditional aversion to any direction of operation there has been difficulty in developing programs because of the great diversity in size and type of agricultural operations throughout the United States. We have 6 or 7 million farmers carrying on agriculture under every conceivable circumstance. Farmers range in their operations from those entirely self-sufficing to those operating on almost a factory basis where they buy many of the products used on their farms, hire much labor, and sell in the market practically all of what they produce. A program designed to raise the income of commercial farmers would have little influence on the self-sufficing farmer since he would have little to sell. On the other hand the large farmer would care little for the support that would appear adequate to the small or even marginal farmer. There could hardly be a single program that would benefit both groups. The administration has recognized this and has done a creditable job in trying to find a solution for both groups. The remedial measures adopted for the lower income groups are probably acceptable to all, except as we may differ in our ideas as to how far we can afford to go in providing support for them. There may, however, not be such close agreement on the solution of the problems of the commercial farmers. When a single general plan is applied to all, their great diversity means that it is ill-fitting in places, that there is evasion where the regulations are most irksome, and that the costs of operation are enormously high.

The drive for government participation in agriculture comes from two sources. The first is the widely held belief that agriculture is the basic industry in our entire economic structure and that its ills will shortly poison the entire economy. The second is the belief that because of its widespread character and small unit of operation, agriculture without government assistance would be unable to find a satisfactory basis of operation. The view of the fundamental character of agriculture even extends beyond the economic aspects of the problem and there are those who hold that the physical quality of our people, our moral fiber and even our political stability depends upon a large and prosperous agriculture. It is not strange that agricultural leaders hold these views. But they are also held elsewhere, as for example, among many business men. The Report of the National Industrial Conference Board and the Business Men's Commission on Agriculture says, "Farming is more than an industry -- it involves the national security, the economic welfare, and the social progress of our people." The geographical spread and large number of small scale units gives rise to the belief in the necessity of the

government providing the overhead organization for the servicing, management, and economic control of agriculture. In the production field this had early taken the form of research and the dissemination of information and later the development of outlook work in the department of agriculture and special credit services in the Federal Farm Loan System. In marketing it took the form of the perfection of a distinct type of business organization--the cooperative--which seems especially fitted for the needs of agriculture.

Most of what has taken place in the development of our agricultural plans can be readily understood if we but inquire as to the steps that would be followed by any industry which found itself menaced by great difficulties. Agriculture has explored most of these possibilities; but because of the nature of the industry, the success on the whole has been only moderate. When an industry finds itself in difficulties the first step ordinarily would be for the leaders to get together to consider plans for a restriction and allotment of production with a view of maintaining or forcing higher prices for the purpose of enhancing income. Next one would expect pressure to develop for a subsidy in some sort of form. The individual operating units would naturally strive to set their own houses in order by securing lower costs through more effective individual operations. Finally, the industry would strive for an enlargement of markets. Agriculture has pressed for a solution to its problem along all these fronts.

One can hardly dispute the assertion that there is no merit in producing more than the market will absorb except at prices which involve heavy losses. It must also be admitted that farmers acting as individuals have no effective way of limiting output. This presents an opportunity for the government to step in with an adjustment program. This constituted the major effort of the present administration until the particular devices then being employed were declared unconstitutional by the Supreme Court. If the difficulties faced are of a temporary nature then there may be some merit in attempting to alleviate them in this manner, but if they are of a long run character there are serious limitations to this sort of a procedure.

The first difficulty is that a reduction of output does not always increase income. Income is a product of price times quantity and neither the process of fixing a high price nor arbitrarily reducing an output necessarily guarantees a higher income. Farmers are interested in higher prices only if these result in larger incomes. This simple fact seems to have been overlooked in some of the early considerations of the problem.

If the market supply persistently exceeds market requirements for a long period then the solution must be either that of reducing the output or expanding the market. It is the customary indication of the need for change in a free competitive market and the normal process for competition is to force some producers from the market. Devices may be set up as we endeavored to do, to reduce the output in agriculture without a substantial reduction in the number of persons engaged in agriculture. Even if such a reduction of

output eventually restored a balance as far as the market was concerned to some preconceived notion of a proper amount or share we would still be left with the difficulty that the agricultural income is to be shared by many more people than are necessary to provide the supplies. It is obvious then that each must receive a smaller individual income than could have been provided from the same total income with a smaller number of persons.

The most drastic efforts toward a crop control came to a close when the Supreme Court declared the methods employed to be unconstitutional. Emphasis now shifted to soil conservation and a change in the types of crops grown. The crop reduction programs under the AAA of 1933 attempted to limit very drastically the crops which could be grown in the acres taken out of production. Under the Soil Conservation and Domestic Allotment Act the Farmers were paid for shifting from "soil-depleting" to "soil-conserving" crops. The soil depleting crops were largely the intertilled crops and small grains. Soil conserving crops included grasses, legumes, and hay crops. There is some resemblance between the list of soil depleting crops and the old group of crops for which controls were sought. There is thus some semblance toward a control program. The emphasis has, however, continued to be on "shifting" acres, rather than "idle" acres. As such it probably is more in line with the psychology of the farmer. The shifts are largely into things which can be used only for livestock feed. Over a period of years this will be likely to encourage more beef, sheep, and dairy production in the corn belt and more of all kinds of livestock production in the South. We will thus have tended to maintain agricultural production but with a different proportion of products.

In general the shifts in production which have been made under the Agricultural Conservation Program have been from crops which were formerly exported to those which are largely on a domestic basis. So far as farm income is concerned this merely amounts to asking consumers to continue to purchase the same quantities of export products as formerly and to purchase increased quantities of the products on a domestic basis. For example, about a third of our lard was exported during the period of 1925 to 1929. Now that a large share of this foreign market is gone we propose to curtail hog production by cutting corn acreage and to use that acreage in the production of beef and dairy products. This would mean that domestic consumers would have the same amount of lard to consume as formerly and additional quantities of beef and dairy products. Such a shift may help to sustain total agricultural incomes but it can hardly be expected to materially increase it. Moreover, while shifting from corn, cotton, and wheat to other products will enhance the incomes of the corn, cotton, and wheat farmers, it will reduce the incomes of the farmers in the lines into which the shift takes place.

Now we might inquire as to just where we stand in our efforts at control. Briefly the demonstration appears to be that nature and the ordinary operation of economic forces have far overshadowed any results of planning and control. Moreover there is evidence at hand that not only have we failed to greatly influence or control production in the way of curtailment but that

actually we face a flood of production that may place unprecedented problems of disposal directly before us in the near future.

At the present time we are in a difficult situation with respect to cotton. The estimate of 12.8 million bales is a larger crop than either of the two preceding years. Together with the carryover the indicated world supply of cotton is around 25 million bales, which with the exception of the two immediately preceding years is the largest since 1932-33. Nature has been supplying us with good crops, partly because of favorable weather and partly because of better care of a crop grown on the best cotton land. The real cotton problem appears to be entirely beyond the realm of any control or reduction measure. In wheat, the picture is yet to develop, although for this year we have supplies to export and our neighbor Canada has had to limit marketings by farmers to 8 bushels per acre. We should not forget that it was a fortuitous set of circumstances that cleared the previous situation and that we would hardly be warranted in expecting such a series of low world crops to occur again. We have, also, almost immediately upon us an expansion in one principal feed crop, corn, as a result of the introduction of hybrid varieties. We have now a very considerable area in the corn belt planted to these higher yielding sorts and the pressure of increased production must soon be felt. An increase in the volume of a less important crop could be absorbed easily but this is an increase in one of the most important sectors in our agriculture. Hog production is now on the declining phase of the cycle but beef cattle are increasing. It is expected that the January 1 figures of cattle and calves on farms will show a third successive year of increase. Dairy production is also large; last June for example the production of creamery butter reached a new high. The conclusion thus appears forced upon us, that we have not done especially well in our experiment of control in the past, that farmers are not particularly receptive to this form of procedure at present, and that we probably face a problem of increased supplies in the near future.

The second source for the bolstering of incomes is the governmental subsidy. Agriculture has done quite well here. The volume of funds spent by the government on behalf of the farmer is noteworthy as is likewise the increase in the amount of these funds. We may probably place the beginning with the experiments indulged in under the Federal Farm Board in 1929 and the immediately following years. Those beginnings now appear moderate indeed. This Board was provided with a "revolving fund" of 500 million dollars. It was to be used in the form of loans to support the market and to provide more orderly marketing of products. The loans turned out to be excessive but it took four years to dissipate the fund. During this period we regarded the experiment as one involving staggering losses, but this was before we could observe astronomical figures on expenditures with as little concern as we do now.

The reported payments by the Federal government for agricultural conservation, the Sugar Act, rental and benefit, cotton option and price adjustment of payments to farmers were 287 million dollars in 1936, 367 million dollars in 1937, 482 million dollars in 1938, and 807 million dollars in 1939. In 1938 Davis thought the total debt on the Treasury if surplus relief purchases and threatened losses on commodity loans were included, would exceed a billion dollars. Clearly, agriculture has gone after subsidies in a big way.

Now there are two difficulties with a subsidy; namely, that the recipients come to regard it as a fundamental right and clamor for more, and also that the payers of the subsidy may tire of paying for it and on its withdrawal the recipient will be equally as bad off or in a worse situation than before. The administration justifies the payments as a means of restoring farm income to a parity with the incomes of others in the economy. If we deal with a temporary situation there is something to be said for this procedure. Certainly if a national calamity falls with special force upon a particular group in the community there are reasons for assessing this cost on all. Likewise if an adjustment involves heavy costs but will take place in the long run anyway as the result of economic forces, a subsidy may aid in avoiding distress and would have a justifiable basis if used to assist in this adjustment. Simply to be used as a means of maintaining the existing status, however, would mean that the long run influence of the subsidy might be harmful rather than beneficial.

A typical example may be observed in the interest rates of the Federal Land Banks. When the Federal Land Banks were first established in 1916, the policy expressed was that they were to complement the existing credit agencies, and to provide the farmer access to the central money markets at the lowest competitive rates justified when a cooperative system was operated under close governmental supervision. During the depression the Congress yielded to the demands for a lower interest rate. An emergency rate of 4.5 percent was first inaugurated in 1933 and this was followed shortly by a reduction to 3.5 per cent. This subsidized rate was to expire on January 1, 1937, and Governor Myers of the Farm Credit Administration made a valiant attempt to have a competitive rate restored. He argued that the task of emergency financing had been completed and that the best interests of the system and the farmer required a return to the higher competitive rate. The 3.5 per cent rate was, however, renewed and a continual demand for a permanent 2 per cent rate appears at every session of Congress. It is, moreover, not clear that such a low subsidized rate of interest would be in the best long run interests of agriculture. There is a relationship between the rate of interest and land values and if our capitalization formulas are right the direct benefit which farmers might derive from the lowered interest rate would be offset by a proportionately higher capitalization of farm property. In fact, it would appear that the lower interest rate in the long run might even make ownership more difficult and increase the importance of the speculative element in land values.

There can be little doubt that groups in agriculture will continue to press for subsidies of various sorts in their respective fields. Usually these will be disguised by other words or their inclusion in the scheme will be hidden to increase their acceptance by the group. The only limit to this sort of thing appears to be the public patience. One can hardly expect this to remain continuously complacent, and perhaps the reaction will be as serious for agriculture as the payments have appeared temporarily desirable.

In times of prosperity businesses tend to become careless regarding their expenditures and production processes, under the stress of endeavoring to reap the harvest while it is still possible. When reverses set in, improvements resulting in increased efficiency and endeavors to lower costs receive greater stress. Some persons have even argued that the adversities of depressions were desirable because they resulted in increased economic efficiency. Agriculture has been hastened in the endeavor to put its house in order in this respect. Data are fragmentary on this point and also inconclusive. For some 16 years or more the Bureau of Agricultural Economics has published data on the employment on the farms of their crop correspondents on the first of each month. The farms of crop correspondents are presumably larger and better managed than the average farm in the United States, and thus cannot be taken as representative of farmers as a whole. The data, however, show a marked decline in the amount of labor per farm during the depression period. During the period 1924 to 1929 the average number of workers including the farm operator, family labor, and hired labor was about $3\frac{1}{2}$ per farm. In recent years it has been below 3 per farm. One may infer from this that on the better farms at least there has been a reduction of labor, probably because of mechanization and improved practices. A still more selected group are the dairy farms in southeastern Minnesota with which our own Division of Agricultural Economics has been cooperating in keeping records for a number of years. Many special factors, we hope including our own advice, has influenced operations on these farms, but the data are so striking that I want to quote them for you.

Pond and Ranney report that, "A careful analysis of their records from year to year indicates a definite gain in efficiency during the eight year period, (1929-1936). Dairy production has been maintained in spite of the drouth stricken pastures of recent years without increased feeding. The feed required to produce 100 pounds of hogs has been decreased 10 per cent. Egg production per hen has been increased 35 per cent. There have been marked improvements in the cropping system. The output of work per worker has been increased more than 20 per cent." These groups, of course, both represent the better farmers and there is probably a large group who continue with no substantial improvement in methods of operation. If this is so, there must be a widening spread between the better and the poorer farm operators.

A good many of the present policies of the administration are likewise directed toward an increase in efficiency and certainly toward a long time lowering of costs. The soil erosion program has attacked a long neglected problem. The "land-use-program" is likewise a step in the right direction. Long time land planning was a natural outgrowth of the emergency adjustment efforts. It differed, however, fundamentally. The latter involved small adjustments on individual farms all over the country, and in many cases involved reduction where production was being most efficiently carried on. The long-time land planning requires removal of large areas of inferior land from crop use and the development of efficient cropping systems on land remaining in use. This would certainly tend in the direction of a more efficient production in agriculture. These programs, however, demand time and spectacular immediate results are not to be expected. While the ultimate solution may lie in large part in these directions they can hardly be expected to contribute much to the easing of the difficulties in the near future.

The remaining alternative for the improvement of the agricultural situation is the expansion of markets. This has occupied the attention of advocates of agricultural relief from the start. In the late 1920's the "export-debenture," the "equalization-fee" and the "domestic-allotment" plans were all pushed by their various proponents. All proposed to support a domestic plane of prices at a level above world prices, and to sell what could not be disposed of in the domestic market for whatever it would bring elsewhere. It was never possible to secure passage in Congress of the export debenture plan, but the equalization fee plan was passed twice and each time vetoed by President Coolidge. There appear to be serious limitations to a policy of selling abroad at a lower price than at home. How can it work in a world such as ours today? Even were conditions more normal most countries have laws relating to export dumping and surely selling products abroad at less than domestic prices would be so construed in the importing countries.

The way has in part been cleared for these sorts of procedures should the Administration wish to use them by the section of the Act which provides that 30 per cent of the tariff receipts may be utilized in expanding the market for agricultural products. There has been considerable reluctance in using these "section 32 funds" for subsidizing the export market but they have been freely used to support the domestic market. There has recently occurred the use of such funds for the exportation of wheat and cotton. The Department of Agriculture announced in August 1938, "a wheat and flour export sales policy" to enable the United States wheat farmers to maintain their fair share of the world export trade. The Federal Surplus Commodities Corporation bought wheat in the domestic market and resold it to exporters at prices sufficiently low to insure export. Subsequently, the plan was modified to indemnify the losses of the exporters, rather than for the FSCC to actually buy and sell the wheat itself. Losses were recovered from the "section 32 funds." In July 1939 an analagous program

was instituted for cotton with an export subsidy of 1.5 cents per pound of cotton, and with comparable rates on cotton products. The war has, of course, profoundly modified these possibilities but there was even before considerable reluctance in trying these procedures. This may have been due to the resistances to exports raised by other countries and also to the poor public position the program would occupy when subsidizing the consumption of those in foreign countries at the expense of the domestic consumer.

Attention has, therefore, turned more and more to the expansion of the domestic market by increasing the ability of the lowest income groups to buy agricultural products or to relief operations. Gratuitous distribution of agricultural products to persons on relief was begun under the Farm Board. It has since had a very considerable expansion and has now become a major feature of the agricultural program. The Federal Surplus Relief Corporation was organized in 1933 and was followed by the Federal Surplus Commodities Corporation. A wide variety of products have been purchased and sent to state relief agencies in response to their requests and distributed by them to relief families. In 1939 some 41 different commodities were purchased. The general purpose has been to remove products from the market thus lessening the need for production curtailment and to dispose of them in channels which would not influence the regular trade. Relief clients offer an excellent possibility.

The more recent evolution of this phase of market expansion has been the development of the stamp plan by which relief clients on the purchase of the required weekly amount of orange stamps secure gratis a specified number of blue stamps which may be used to purchase a wide list of commodities designated as surplus commodities. The plan has been extended rapidly and with apparent public approval. The funds are drawn from the "section 32 funds." The plan has the great merit of public appeal on humanitarian grounds and it meets with favor among the merchants because it utilizes the regular channels of trade and enlarges their volume of sales. As a form of relief measure it has, however, some deficiencies: The farmer does not receive directly the entire amount of the subsidy, since some of the outlay is absorbed in the marketing process. A direct bounty of the same amount would thus raise the farmers' income more than when expended through the stamp plan.

The difficulty with these schemes, whatever other merits they may possess, appears to be their enormous cost if they are to provide anything near the expansion in outlets needed for relieving the situation. The general program, however, drifts in this direction as is indicated in the last paragraph of Secretary Wallace's article in the New York Times a year ago. He writes: "In 1933 I compared the new farm program to a 1900 automobile model, and suggested that there would be many changes. As time goes on the changes from year to year are less significant. But there are always changes and in 1939 I would say the outstanding new characteristic of the new model is 'merchandising.' We are seeking customers, for food and for

cotton, both at home and abroad, more vigorously than ever before. If one method does not work we shall try another. We are out to sell goods. We are out to do business." The real solution for an expansion of markets, however, must await a revival of business and industrial activity in the United States. Here lies the majority of the market for most of our agricultural products and here it is likely to be in the future. The greatest help that could possibly be given our agriculture would be a substantial reemployment of the non-agricultural population in productive tasks.

We appear then to be drawn toward the following position with respect to our agricultural programs as a result of our experience with agricultural planning and control over the past two decades. It has become reasonably clear that the reduction of agricultural production while the same number of farmers remain in agriculture as at present, will result in little improvement for the bulk of the farmers. It is evident that thus far we have succeeded in making no appreciable reduction in the total volume of agricultural output. The whole thing runs counter to the impulses and viewpoint of the individual farm operator. We are clearly able to better the position of specialized groups by the use of marketing controls and diversion operations and while this does little to raise the total agricultural income one may expect to see these measures retained and perhaps expanded.

In view of the inability to raise the status of the farmer without some removal of farmers from agriculture, subsidies will remain essential for the improvement of his position until more fundamental factors produce favorable trends in his direction. These subsidies have grown at an alarming rate. We must shortly face the problem of whether they can be maintained in the face of other demands upon our economy. The recipients of a subsidy are an especially favored group in the community drawing their support to the extent of the subsidy from the rest. When world events demand the support of another special group, namely, our military and naval forces, there is raised a grave problem of how long the agricultural support can be maintained. The agricultural leaders and agricultural pressure groups face a grave responsibility that in endeavoring to benefit themselves that they do not weaken our entire economy.

The war must exert profound influences on agriculture, but we are in a much better position to meet these problems than those which arose in and followed the last war. Especially have the farmers in the last decade acquired a background of acquaintance with the general character of the problems facing agriculture and their basic nature. This education has been a splendid achievement. There is, perhaps, no great group in the economy among whom the rank and file is as well aware of the economic factors affecting them. This is certainly true when one looks at labor and is probably true when one considers business as a whole.

There appears no immediate assurance that agriculture will shake off the difficulties that have so sorely beset it in the last two decades. In fact, it is not difficult to believe that we now wait in the lull before the storm and that these difficulties will increase rather than decrease. As I would read the record of the past ten years, it seems to say that the efforts to secure corrections have been puny indeed beside the great uncontrollable forces of nature and the devastation wrought by continued depression and unemployment. The major changes that have taken place appear to be the results of the operations of natural responses to prices and economic circumstances rather than the direction of administrative planning. The forces which control the destinies of this great industry are largely outside of its own control and its own internal efforts can do little to alleviate them. The hope is that they may again become favorable with the suddenness that turned them against us.